

<p align="center">2007 - 2008 ANNUAL REPORT</p>

ENTERPRISE FUNDS

Airport Operating Funds

Operating funds for the Airport Department consist of the following: the Airport Customer Facility and Transportation Fee Fund, the Airport Revenue Fund, the Airport Maintenance and Operation (M&O) Fund and the Airport Surplus Revenue Fund. For this presentation the Airport Fiscal Agent Fund is shown in a separate table below.

Airport Operating Funds

(\$000s)

	Budget	Actual	Variance	Percent Variance
<i>Revenue</i>	\$ 420,710	\$ 453,106	\$ 32,396	7.7%
<i>Expenditure</i>	413,045	434,096	(21,051)	(5.1%)
<i>Fund Balance (est.)</i>	36,193 *	60,715	24,522	67.8%

* Refers to the 2007-2008 Ending Fund Balance estimate used to develop the 2008-2009 Adopted Budget

The positive variance in revenues (\$32.4 million) primarily reflects proceeds from the issuance of commercial paper (\$47.7 million) with a partial offset of reduced transfers from the Airport Revenue Fund. A reduction in the transfer from the Airport Revenue Fund was a result of expenditure savings in operating programs and services. Refinancing of 2004 A/B bonds with commercial paper was accomplished in the spring to reduce the cost associated with the 2004 variable rate debt. Reduced transfer amounts from the Airport Revenue Fund that were budgeted but unnecessary include \$15.1 million to the Airport Maintenance and Operation Fund that resulted from conservative use of reserves, non-personal/equipment funding, and the institution of a successful Airport Cost/Position Management Plan.

Actual revenues (without factoring in interfund transfers) in these four funds ended the year \$47.0 million greater than budgeted. This variance reflects the combined total of commercial paper proceeds as described above and slightly increased revenue collections in other operating budget categories (\$616,000), partially offset by lower contributions and reduced contracts from rental car companies (\$1.3 million) in the Customer Facility and Transportation Fee Fund. Terminal Concessions, General and Non-Aviation, Airfield, Petroleum, and Terminal Rental revenues all met or exceeded budgeted levels. Increased revenue was due to many factors including, but not limited to, increased advertising and food and beverage concessions, rental fees, excess bond proceeds remaining from the 2001 issue, and interest income. Although parking revenues ended the year slightly below budgeted levels most likely due to construction impacts, the shortfall was mitigated by an increase in rental car revenues. Amended rental car agreements, including a definition of gross revenue, resulted in the increase in concession fees.

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ENTERPRISE FUNDS (CONT'D.)

Airport Operating Funds (Cont'd.)

A result of the rate structure set by the December 2007 Airline agreements was to restructure the categories of airline revenues. Landing fees from all airlines ended the year below budgeted levels, however revenue associated with terminal rentals for the new shared use terminal space more than offset the lower fees. Total airline revenues ended the year 2% above budget.

The expenditure variance shown above is the combination of savings (\$11.6 million) and unnecessary transfers as described above (\$15.1 million) offset by increased transfers of commercial paper proceeds to various capital and operating funds (\$48.1 million).

For 2007-2008, operating budget savings actually totaled \$10.5 million in the Airport Maintenance and Operation Fund. Savings primarily result from vacancies, utilities and contractual services. The Airport carried an average of 46.3 vacancies over the course of the year, as hiring was restricted to only critical service areas. Overtime and temporary staff were utilized to compensate for vacancies and implementation of common use systems. The rate on a new shuttle bus operating agreement was lower than anticipated. Combined changes to the contract term and route changes from the Valley Transportation Agency resulted in significant contractual service savings. The Airport continued to carefully manage supplies, services, training, equipment rental, gas and electric utilities, and lease costs, all of which ended the year with savings. Rental car program savings totaling \$466,000, were the result of vacancy savings, shuttle bus operator savings and compressed natural gas utility and station management costs.

Additionally, savings related to FMC property lease payments (\$336,000), workers' compensation claims costs (\$1.0 million), Orange Security Alert (\$981,000) and a multi-year clean-up of public safety overhead rates (\$1.1 million) contributed to the overall surplus. These savings, combined with the conservative use of reserves, are reflected in the total expenditure variance and the availability of additional fund balances.

The fund balance variance of \$24.5 million was the combined result of factors discussed above, including greater revenue and transfers associated with financing activities, lower than estimated maintenance and operating transfers, and expenditure and reserve savings in the various Airport operating funds.

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ENTERPRISE FUNDS (CONT'D.)

Airport Operating Funds (Cont'd.)

Airport Fiscal Agent Funds

(\$000s)

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>	<u>Percent Variance</u>
<i>Revenue</i>	\$ 880,718	\$ 880,480	\$ (238)	(.0%)
<i>Expenditure</i>	783,569	777,067	6,502	0.8%
<i>Fund Balance (est.)</i>	183,133 *	137,635	(45,498)	(24.8%)

* Refers to the 2007-2008 Ending Fund Balance estimate used to develop the 2008-2009 Adopted Budget

Performance of the Airport Fiscal Agent Fund is summarized in the chart above and reflects adjustments in the schedule of financing associated with Airport capital projects. Subsequent to the changes in the credit market and interest rates, the 2004 A/B bonds were redeemed in order to capture a lower interest rate which generated the expenditure variance. The fund balance negative variance is due to the timing of the bond redemption occurring late in 2007-2008, sooner than originally planned. The Airport wanted to take advantage of the lower interest rate by refunding bonds with commercial paper. There is no negative impact to this fund.

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ENTERPRISE FUNDS (CONT'D.)

General Purpose Parking Fund

The General Purpose Parking Fund accounts for the operations of City parking facilities and parking meters. Financing and capital construction of parking facilities are also accounted for within this fund.

***General Purpose
Parking Fund***

(\$000s)

	Budget	Actual	Variance	Percent Variance
<i>Revenue</i>	\$ 10,425	\$ 11,834	\$ 1,409	13.5%
<i>Expenditure</i>	20,065	16,662	3,403	17.0%
<i>Fund Balance (est.)</i>	12,442 *	9,090	(3,352)	(26.9%)

* Refers to the 2007-2008 Ending Fund Balance estimate used to develop the 2008-2009 Adopted Budget

The positive revenue variance of \$1.4 million is due to higher than anticipated revenues collected in City parking lots (\$1.5 million), parking meters (\$59,000), and miscellaneous revenue (\$24,000). These higher than anticipated revenue collections are slightly offset by lower than anticipated revenues collected in interest earnings (\$180,000). Actual revenue collections (\$11.8 million) for 2007-2008 exceeded conservative estimates (\$10.4 million). Parking lot revenues were higher than budgeted primarily as a result of the Enhanced Parking Security and Cleaning Plan, which charges customers a flat \$3 rate on Thursday, Friday, and Saturday nights after 6 p.m. Parking meters and miscellaneous revenue collections were higher than anticipated as a result of increased activities due to Downtown special events that occurred in the past year.

Savings in the General Purpose Parking Fund for 2007-2008 resulted in a \$3.4 million positive variance from budgeted program expenditures. The majority of the variance to budget is due to unexpended project funds in the Parking Capital Program. When the 2008-2009 Adopted Capital Budget was developed, \$1.5 million in anticipated savings was initially rebudgeted to complete capital improvements, which include the Revenue Control Upgrades project (\$675,000), Parking Guidance System Phase II project (\$600,000), Security Improvements project (\$150,000), Facility Improvements and Maintenance project (\$57,000), and Public Art allocation (\$14,000).

In addition, a total adjustment of \$300,000 in the Security Improvements project is recommended in this report, which will augment the project by \$250,000 to implement energy efficient lighting improvements in the City's parking garages and will rebudget \$50,000 of unexpended funds in the 2008-2009 Adopted Capital Budget. In contrast, the total funds available in the Parking Guidance System Phase II project for rebudget were over estimated by \$14,000 because actual year-end expenditures were higher than expected since more work was completed than originally

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ENTERPRISE FUNDS (CONT'D.)

General Purpose Parking Fund (Cont'd.)

anticipated. An adjustment of \$14,000 is recommended in this report to correct the excess rebudgeting of expenditures in the 2008-2009 Adopted Capital Budget.

Most of the remainder of the expenditure variance was due to savings in non-personal/equipment costs for the Department of Transportation (DOT). Non-personal/equipment expenses for DOT were \$919,000 (14.1%) below budgeted estimates primarily due to contractual services, insurance, electricity, overhead, and rent costs savings. There are savings in contractual services due to a switch in vendor for parking garage and parking lot operators, and there are savings in insurance expenditures as a result of the City no longer having to carry earthquake insurance. Electricity, overhead, and rent costs were lower than originally anticipated.

The negative variance of \$3.4 million in the ending fund balance primarily reflected higher than estimated expenditures (\$3.8 million) offset slightly by higher than estimated revenues (\$493,000).

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ENTERPRISE FUNDS (CONT'D.)

San José/Santa Clara Treatment Plant Operating Funds

The San José/Santa Clara Treatment Plant Operating Funds are used for the operation and maintenance of the sanitary sewer system and the regional San José/Santa Clara Water Pollution Control Plant (WPCP). Funds included in this category are the San José/Santa Clara Treatment Plant Operating Fund (513), San José/Santa Clara Treatment Plant Income Fund (514), Sewage Treatment Plant Connection Fee Fund (539), and the Sewer Service and Use Charge Fund (541).

***San José/Santa Clara
Treatment Plant
Operating Funds***

((\$000s))	Budget	Actual	Variance	Percent Variance
<i>Revenue</i>	\$ 182,217	\$ 189,638	\$ 7,421	4.1%
<i>Expenditure</i>	216,612	211,331	5,281	2.4%
<i>Fund Balance (est.)</i>	41,770 *	47,681	5,911	14.2%

* Refers to the 2007-2008 Ending Fund Balance estimate used to develop the 2008-2009 Adopted Budget

Revenues ended the year with a \$7.4 million positive variance. Higher than expected revenues in the San José/Santa Clara Treatment Plant Income Fund (\$3.8 million), San José/Santa Clara Treatment Plant Operating Fund (\$3.0 million), and the Sewer Service and Use Charge Fund (\$3.0 million) were partially offset by lower than expected revenues in the Sewage Treatment Plant Connection Fee Fund (\$2.2 million). In the San José/Santa Clara Treatment Plant Income Fund, the positive revenue variance was due to higher than expected income from PG&E land settlements (\$3.8 million). In the San José/Santa Clara Treatment Plant Operating Fund, higher than expected revenues came primarily from the Contribution from Santa Clara (\$943,000), Contributions from Other Agencies (\$767,000), the Miscellaneous appropriation (\$534,000), and Recycled Water Revenues (\$394,000). In the Sewer Service and Use Charge Fund, higher than expected revenues from residential (\$2.9 million) and commercial users (\$1.1 million) were partially offset by lower than expected interest income (\$1.0 million). In the Sewage Treatment Plant Connection Fee Fund, lower than expected loan repayment proceeds from the Anti-Tobacco Fund (\$1.7 million) and lower than expected connection fee revenue (\$1.2 million) were partially offset by higher than expected interest income (\$555,000).

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ENTERPRISE FUNDS (CONT'D.)

San José/Santa Clara Treatment Plant Operating Funds (Cont'd.)

The positive expenditure variance (\$5.3 million) is the result of savings in the San José/Santa Clara Treatment Plant Operating Fund (\$1.6 million), the Sewage Treatment Plant Connection Fee Fund (\$1.7 million), and the Sewer Service and Use Charge Fund (\$2.0 million).

The positive expenditure variance in the San José/Santa Clara Treatment Plant Operating Fund is primarily the result of vacancy savings in the Environmental Services Department's Personal Services appropriation (\$705,000), contractual services savings in the Environmental Services Department's Non-Personal/Equipment appropriation (\$662,000), and vacancy savings, as well as supply and equipment cost savings, in the Plant Landscape Maintenance appropriation (\$112,000). A rebudget of \$500,000 in the Environmental Services Department's Non-Personal/Equipment appropriation is recommended as part of this document for Plant Master Plan outreach. Expenditure savings in the Sewage Treatment Plant Connection Fee Fund were solely due to a lower than anticipated short-term loan to the Anti-Tobacco Fund (\$1.7 million). Expenditure savings in the Sewer Service and Use Charge Fund were realized primarily in the Major Litigation Costs appropriation (\$600,000), the Sanitary Sewer Claims appropriation (\$523,000), the Environmental Services Department's Personal Services appropriation (\$114,000), the Department of Transportation's Personal Services appropriation (\$214,000), the Public Works Department's Non-Personal/Equipment appropriation (\$145,000), and the Department of Transportation's Non-Personal/Equipment appropriation (\$142,000). The remainder of the savings in the Sewer Service and Use Charge Fund were realized in a number of projects, in which the individual savings were less than \$75,000.

The fund balance ended the year with a \$5.9 million positive variance due to higher than estimated revenue (\$4.9 million) and lower than estimated expenses (\$991,000). Positive ending fund balance variances in the Sewer Service and Use Charge Fund (\$2.7 million), the San José/Santa Clara Treatment Plant Operating Fund (\$2.0 million), and the San José/Santa Clara Treatment Plant Income Fund (\$1.7 million) were partially offset by a small negative variance in the Sewage Treatment Plant Connection Fee Fund (\$488,000).

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ENTERPRISE FUNDS (CONT'D.)

Water Utility Fund

The Water Utility Fund supports the operations of the Municipal Water System, which provides water service to the North San José, Evergreen, Alviso, Edenvale, and Coyote areas. This fund is financed through user charges.

Water Utility Fund

<i>(\$000s)</i>	Budget	Actual	Variance	Percent Variance
<i>Revenue</i>	\$ 24,847	\$ 23,918	\$ (929)	(3.7%)
<i>Expenditure</i>	25,615	24,978	637	2.5%
<i>Fund Balance (est.)</i>	3,029 *	3,114	85	2.8%

* Refers to the 2007-2008 Ending Fund Balance estimate used to develop the 2008-2009 Adopted Budget

The negative revenue variance (\$929,000) is primarily the result of lower than budgeted Water Sales revenues (\$497,000), and interest earnings (\$69,000). Additionally, a one-time write-off occurred for uncollectible debt, which further reduced revenues (\$373,000). Water sales ended the year below expectations due to lower water usage. The Santa Clara Valley Water District asked water users to voluntarily conserve 10%. This appears to have led to water sales that were 6.3% lower than projected and 2.3% lower than in the previous year.

Expenditure savings (\$637,000) were primarily reflected in the Environmental Services Department Non-Personal/Equipment appropriation (\$463,000). As a result of lower than anticipated water sales discussed above, corresponding savings resulted from lower water purchases required. Savings from Finance Department Personal Services, Information Technology Personal Services, Environmental Services Personal Services, General Services Non-Personal/Equipment, PBCE Personal Services, Information Technology Non-Personal/Equipment, and Worker's Compensation account for the remaining (\$174,000) savings.

The positive ending fund balance variance (\$85,000) resulted from lower than expected revenue (\$129,000) offset by lower than expected expenditures (\$214,000).